



Management Controls & the Self-Audit Process




By:

Angela Brown



Jay Gilligan &

Karen Schulte




Internal Audit?

-  What is your definition of internal audit or audit in general?
-  Do you know the mission of your agency?
-  How would you feel if you were informed that the City Manager has selected your organization for an audit? Therefore, IAD staff would like to meet with you tomorrow!

Internal Audit Division Mission

-  To promote honest, effective, efficient and fully accountable City Government.
-  To issue audits conducted in accordance with generally accepted government auditing standards (GAGAS) or (GAS).

Purpose of Internal Audit

-  To identify and evaluate risk factors in the entity.
-  To identify weaknesses that may inhibit an entity from achieving its mission and goals.
-  To verify that a control environment (specifically management or internal controls) exist regarding safety as well as compliance with government mandates.

What is Risk









- 📄 Risk is defined as the uncertainty,
- 📄 the possibility of loss or injury,
- 📄 exposure to hazard or danger,
- 📄 someone, something, an action, or lack of an action that creates a loss or hazard or suggests a loss or a hazard.

Risk Focus






 Risk focuses in two areas:

- What are the possibilities that an organization or process will not achieve its desired goals.
- What are the adverse consequences and the associated costs if something goes wrong

The Audit Process

-  The preliminary survey
-  The Entrance Conference
-  IAD Fieldwork
-  Survey (or Draft) Report
-  Exit Conference
-  Auditee's Response
-  Final Report
-  Follow-up Phase


Parts of an Audit Findings

-  Criteria (the way it should be, the common accepted standard)
-  Condition (the way it presently is)
-  Effect (what impact the problem is producing)
-  Cause (what is causing the problem {the it})
-  Recommendation (the course of action to address the problem resulting in a favorable outcome moving operations to standard)

Management Controls



- ☞ Management controls are sometimes called Internal Controls.
- ☞ They are management tools designed to detect, prevent, or correct business processes providing reasonable assurance that the objectives are met.
- ☞ These controls should be designed to evaluate operational effectiveness and efficiency, reliability for financial reporting and compliance with applicable laws and regulations.

Cost Benefit or Materiality

 Materiality addresses the magnitude or an omission, misstatement relevant to the organization's accounts or mission.

- Does the lack of control in this area have a significant effect on the business process?
- Does the control cost more to install and maintain than the possible loss if the control were not in place?

Relative Risk

-  Management evaluates risk and materiality in business processes to determine Relative Risk.
-  Relative Risk is the ultimate criteria for audit selection because it is the most relevant factor in determining business exposure to financial loss, inefficiencies, and non-effective processes.

Standards for Management Control in Government

 Control Environment




 Risk Assessment

 Control Activities

 Information and Communications

 Monitoring



Indicators of a Control Environment

-  Integrity and Ethical values maintained and demonstrated by management
-  Management's philosophy and operating style. (Performance-based management is a plus)
-  Does the organization's framework allow for management to plan, direct, and control operations to achieve agency objectives?

Indicators of a Control Environment

- How is authority and responsibility delegated throughout the agency?
- Does the agency have good human capital policies and practices in place . Are these policies and practices followed?
- What is the agency's relationship with the central oversight agency(ies).


Risk Assessment

-  A precondition of risk assessment is the establishment of clear, consistent agency objectives. (Why?)
-  Management needs to comprehensively identify risks entity-wide. Methods include:
 - Quantitative and qualitative analysis and ranking of activities
 - Forecasting & strategic planning, and
 - Consideration of findings from previous reviews.




Risk Assessment (cont...)

 Analyzing the effect of identified risks.

- Estimating the risk's significance.
- Assessing the likelihood of occurrence. And,
- Deciding what action to take to control the risk.

 Management must be aware and evaluate the change in risk as business processes, regulation, tools, etc change.

Control Activities

-  Control activities should be an effective and efficient process reasonably insuring that management's directives are carried out.
-  Control activities are policies, procedures, techniques, and mechanisms that enforce management's directives by addressing risk.
-  Control activities occur at all levels of the entity. They include: authorizations, verifications, approvals, reconciliation's creating records of activities, reviews, etc.


Key Categories of Control Activities for All Agencies

- 📄 Top level review of actual performance.
- 📄 Reviews by management at the functional or activity level.
- 📄 Responsible management of human capital.
- 📄 Controls over information processing.
- 📄 Physical control over vulnerable assets
- 📄 Establishment and review of performance measures and indicators.

Key Categories of Control Activities (cont....)

- ☞ Segregation of duties
- ☞ Proper execution of transactions and events.
- ☞ Accurate and timely recording of transactions and events.
- ☞ Access restrictions to and accountability for resources and records. And,
- ☞ Appropriate documentation of transactions and internal control.

Information & Communication

 Information should be recorded and communicated to management and others within the entity who need it. The information should be presented in a form and with-in a time frame that enables them to carry out their internal control and other activities.

Monitoring

- It should be performed continually and ingrained in the agency's operations.
- Separate evaluations of control can be useful by focusing directly on the controls' effectiveness at a specific time.
- Deficiencies found during ongoing monitoring should be communicated to the individual responsible for the operation and at least one level above that individual.